

***Internal Audit Report***

**DEPARTMENT OF PUBLIC WORKS  
CONTRACT COMPLIANCE REVIEW  
CUSTODIAL SERVICES  
OCTOBER 2007**

***Office of the County Auditor***





## OFFICE OF THE COUNTY AUDITOR

Haskell Arnold, CPA  
County Auditor

October 2007

The County Council and County Executive  
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the

DEPARTMENT OF PUBLIC WORKS  
CONTRACT COMPLIANCE  
CUSTODIAL SERVICES

and our report is submitted herewith. The scope of our examination related specifically to a review of Custodial Service Agreements. The body of our report presents our findings and recommendations.

The contents of this report have been reviewed with the Chief Administrative Officer and the Director of Public Works. We wish to express our gratitude to the Bureau of Facilities and the Office of Purchasing for the cooperation and assistance extended to us during the course of this engagement.

A handwritten signature in dark ink, appearing to read "Haskell N. Arnold".

Haskell N. Arnold, C.P.A.  
County Auditor

A handwritten signature in dark ink, appearing to read "Leo Oken".

Leo Oken, C.P.A.  
Auditor-in-Charge

## SUMMARY

The Office of the County Auditor has performed a compliance review of certain custodial service agreements entered into by the County. Our scope included custodial service agreements in force during FY 2007 that included three contractors who provide these services to the County: Sanitech, Spotless Janitorial Services Inc., and Sun Contractors Inc. We specifically reviewed expenditures made in FY 2007 that were recorded in the Department of Public Works under object code 245, Janitorial Services and activity code 4770, Custodial Services. The approved FY 2007 budget for this activity is \$1,572,150 and as of April 30, 2007, expenditures total \$1,210,750. We found that the County and the other parties to the agreements appear to be in compliance with the respective terms and conditions. In addition, our review indicates that the personnel who are responsible for administering County custodial agreements have generally adhered to the policies and procedures that govern approvals of invoices and payments to contractors.

We made two recommendations regarding the review and approval of payments to custodial contractors. One recommendation was in regard to custodial services provided over several months in a prior fiscal year. Custodial contractors typically bill in arrears for their services on a *monthly* basis and departures from this practice are unusual. An invoice for services provided over an extended period was paid without evidence of review and approval clearly noted. In addition, there were no records to confirm that prior to initiating payment, the approving agency substantiated that the custodial services had actually been provided to the end user.

## INTRODUCTION AND SCOPE

Maintaining compliance with Howard County regulations and with the provisions of custodial service agreements requires coordination between several different agencies within County Administration, including the Office of Purchasing, the Department of Public Works, the Department of Finance and user agencies. We examined service agreements to determine that the parties to each agreement are in compliance with their respective terms and conditions. We did not examine the bidding process in this review.

County regulations state, "any contract requiring the payment of funds from appropriations of subsequent fiscal years shall be made or approved by ordinance, pursuant to section 612 of the Howard County Charter." We determined that approval by the County Council was unnecessary, since none of the custodial service agreements in our scope met this prerequisite. Typically, the term of custodial service agreements has been a one-year period with two or more one-year options to renew.

The custodial service agreements we reviewed were not supported by written contracts. We were informed that at the time these agreements were ratified, the Office of Purchasing policy did not specify that purchase orders for services in excess of a certain dollar amount be supported by a separate, written contract. Instead, the purchase order description incorporated the term "Price Agreement Requirements Contract" for custodial services. Presently, this procedure is no longer employed. A policy has since been instituted that requires that a formal contract be signed by all parties for any purchase order for services of \$30,000 or more.

In lieu of a formal contract, we examined copies of purchase orders for appropriate signatures by the Purchasing Office and vendors proposals for signature by a company representative. For each contractor, we agreed FY 2007 requisition releases (payments) to the Purchasing system detail and to a copy of the contractor's invoice. We examined payments that comprised approximately 85% of the Department of Public Works year-to-date obligations for custodial services. With the exception of occurrences discussed in the "Findings and Recommendations" section, it appears that the contractual arrangements between the County and its custodial contractors were administered in accordance with the policies and procedures governing these activities. Contractor invoices were appropriately reviewed and approved and contractor payments were disbursed according to the terms of the Purchase Orders.

## BACKGROUND

The County contracts with various vendors for custodial services that consist primarily of office cleaning and “porter” services. When the Bureau of Facilities identifies a need for custodial services, based upon County planning or a specific request from an end user, the Office of Purchasing prepares an Invitation to Bid that details the scope of services and location where services will be provided. A “Notice of Letting” that provides conditions for sealed bids is published in various newspapers and other journals to inform potential contractors of the need for their services. Contractor’s bids are evaluated by the Office of Purchasing based upon criteria spelled out in the Invitation to Bid. After the contract is awarded, a Purchase Order is issued that includes the required bidder’s qualifications, contract period, billing and payment methods, staffing requirements, service frequency, specific areas to be cleaned, general cleaning specifications and other pertinent information. In the event that a contractor’s work is deemed unsatisfactory or the contractor fails to furnish the minimum man-hours stipulated, the purchase order includes provisions that allow the County to apply deductions based upon a schedule included in the document.

Custodial contractors ordinarily submit monthly invoices that reference the purchase order number and include the location where services have been provided. At one time, invoices were routed through the Finance office and forwarded to the Bureau of Facilities for review and approval, but presently, they are sent directly to Facilities for this purpose. On occasion, the need for “special” or additional custodial services outside of the scope of the purchase order issued to a contractor may be brought to the attention of the Bureau of Facilities. Once it has been determined that an existing contractor has the capacity to provide these services and that there are sufficient funds available, Facilities will request that the Office of Purchasing prepare a change order that incorporates the additional tasks.

Contractor invoices are reviewed and approved by employees in the Bureau of Facilities. The fiscal specialist enters the invoice detail into the County Purchasing System on a line-item basis. A supervisor or manager reviews the invoice and enters his or her “electronic” signature signifying that the sub-order release is approved. Original invoices are forwarded to Finance where they are “scanned” into the AMS Advantage accounting system. Facilities personnel maintain copies on site for 30 to 60 days.

On an ongoing basis, the Bureau of Facilities monitors contractor performance and to some extent, relies on the end-users of custodial services to identify lapses in service or quality of performance. Should an end-user discover an unsatisfactory condition or a shortfall in required services, they must alert the Bureau of Facilities in writing. Bureau of Facilities personnel notify the contractor of the deficiency and discuss remedial action, where appropriate. When these types of problems arise, oral discussions between Facilities and the contractor are usually sufficient to correct a deficiency or provide custodial services inadvertently omitted. Continued unsatisfactory performance or omission of contracted services will result in written notification to the contractor and may trigger penalties specified in the purchase order.

## **FINDINGS AND RECOMMENDATIONS**

During the review of payments made to custodial contractors, we noted that on two occasions, a contractor invoiced for services provided over a period of several months. The dates of services billed were as much as twelve months prior to the invoice dates. Because the contractor billed for as many as seven months of custodial services in a single invoice, the invoice amounts were significantly higher than a typical monthly invoice. Facilities personnel informed us that the contractor had mistakenly failed to bill for these services at the time they were provided and that these invoices were meant to rectify that omission.

Due to the unusual nature of these invoices and the large amounts (\$5,880 and \$4,200, respectively), we believe that the review and approval process should have been documented more thoroughly. Facilities personnel were not able to provide evidence that these invoices were subjected to any detailed scrutiny prior to their approval for payment. There was no written record of any discussion with the contractor or explanation why the contractor billed for services provided as much as twelve months prior to the invoice date. In addition, there was no evidence that the end user was contacted to substantiate that any of the prior services billed had been provided. Therefore, we recommend that:

1. The Bureau of Facilities retains a written record that documents the review and approval of contractor invoices that do not conform to customary billing practices. These would include invoices for services provided substantially before the date of the invoice and invoices for amounts in excess of typical billings. In addition, Facilities should retain a written record of any inquiries or substantive discussions with contractors regarding billing matters.

Administration's Response:

The Administration concurs with this recommendation and the Bureau of Facilities will retain a written record that documents the review and approval of contractor invoices that do not conform to customary billing practices. In addition, Facilities will retain a written record of any inquiries or substantive discussions with contractors regarding billing matters.

2. In circumstances where a contractor bills for services provided in a time period that is significantly earlier than the invoice date, Facilities should confirm the delivery of these services with the end user before giving approval for payment.

Administration's Response:

The Administration concurs with this recommendation. The Bureau of Facilities will confirm the delivery of services before giving approval for payment when a contractor bills for services significantly earlier than an invoice date.

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